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Japan Ranked As World's Top Aid Donor

The Organization for Economic Cooperation and Development has calculated that Japan's economic assistance program now officially qualifies its ranking as the largest donor of foreign aid among the 18 nations that comprise the OECD's Development Assistance Committee. Last year net Japanese disbursements of official development assistance totaled $9 billion (see Table 1), up 4 percent allowing for changes in prices and in the yen-dollar exchange rate. Although Japan's ODA decreased 1.9 percent in dollar terms from 1988's level, in yen terms it increased 5.6 percent. Bilateral assistance rose 12 percent, but multilateral contributions were off 15 percent because of accidental timing factors.

The United States lost its longtime top ranking when its 1989 net disbursements declined 27.4 percent in real terms to under $7.7 billion, dropping it to the number-two position among DAC donors. The significant fall can be traced largely to the timing of U.S. contributions to multilateral institutions, the OECD said, noting that in 1988 Washington paid two large installments on its contribution to the International Development Association -- the soft loan window of the World Bank. Although many people in the aid community

Table 1: ODA of Major Donor Countries, 1985-89

(in millions of dollars)

1989 Rank	Country	1985	1986	1987	1988	1989*	Share of Total DAC ODA 1989*
1	Japan	$3,797	$5,634	$7,454	$9,134	$8,958	19.3%
2	United States	9,403	9,564	8,945	10,141	7,664	16.5
3	France**	3,995	5,105	6,525	6,865	7,467	16.0
4	West Germany	2,942	3,832	4,391	4,731	4,953	10.7
5	Italy	1,099	2,403	2,615	3,193	3,325	7.2
6	United Kingdom	1,530	1,737	1,871	2,645	2,588	5.6
7	Canada	1,631	1,695	1,885	2,347	2,302	5.0
DAC Total		29,429	36,653	41,535	48,132	46,498	100.0

*Preliminary.
**Including overseas territories and prefectures.

Source: Organization for Economic Cooperation and Development

Table 2: ODA as Percentage of GNP for DAC Countries, 1985-89

(in millions of dollars)

1989 Rank		1985		1986		1987		1988		1989*		Percent Change 1988-89*
		Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	Amount	Percent of GNP	
1	Norway	$574	1.01%	$798	1.20%	$890	1.09%	$985	1.10%	$919	1.02%	-6.7%
2	Denmark	440	0.80	695	0.89	859	0.88	922	0.89	1,003	1.00	8.9
3	Sweden	840	0.86	1,090	0.85	1,375	0.88	1,534	0.86	1,809	0.98	18.0
4	Netherlands	1,136	0.91	1,740	1.01	2,094	0.98	2,231	0.98	2,094	0.94	-6.2
5	France**	3,995	0.78	5,105	0.72	6,525	0.74	6,865	0.72	7,467	0.78	8.8
6	Finland	211	0.40	313	0.45	433	0.49	608	0.59	705	0.63	16.0
7	Belgium	440	0.55	549	0.49	685	0.48	618	0.41	716	0.47	15.9
8	Canada	1,631	0.49	1,695	0.48	1,885	0.47	2,347	0.50	2,302	0.44	-1.9
9	West Germany	2,942	0.47	3,832	0.43	4,391	0.39	4,731	0.39	4,953	0.41	4.7
10	Italy	1,098	0.31	2,404	0.40	2,615	0.35	3,193	0.39	3,325	0.39	4.1
11	Australia	749	0.48	752	0.47	627	0.34	1,101	0.46	1,017	0.37	-7.6
12	Japan	3,797	0.29	5,634	0.29	7,454	0.31	9,134	0.32	8,958	0.32	-1.9
13	United Kingdom	1,530	0.33	1,750	0.32	1,887	0.28	2,645	0.32	2,588	0.31	-2.1
14	Switzerland	302	0.31	422	0.30	547	0.31	617	0.32	559	0.30	-9.5
15	Austria	248	0.38	198	0.21	201	0.17	301	0.24	282	0.23	-6.4
16	New Zealand	54	0.25	75	0.30	87	0.26	104	0.27	87	0.22	-16.0
17	Ireland	39	0.24	62	0.28	51	0.19	57	0.20	49	0.17	-12.9
18	United States	9,403	0.24	9,564	0.23	8,945	0.20	10,141	0.21	7,664	0.15	-24.4
DAC Total		29,429	0.35	36,653	0.35	41,535	0.34	48,132	0.36	46,498	0.33	-3.4

*Preliminary.
**Including overseas territories and prefectures.

Source: Organization for Economic Cooperation and Development

had expected Japan to take the lead in foreign assistance in 1988, this country's $1.9 billion in IDA payments helped to keep the United States at the top of the donor list.

The OECD said similar timing factors were behind the $1.6 billion decline in overall DAC net disbursements to developing countries and multilateral institutions in 1989. The drop from the 1988 level of $48.1 billion to $46.5 billion represented a decrease of 2 percent in real terms. Foreign aid as a percentage of gross national product for DAC members combined also fell last year, dropping from 0.36 percent in 1988 to 0.33 percent (see Table 2). Norway, Denmark, Sweden and the Netherlands boasted the highest ODA/GNP ratios, all hovering around 1 percent. Japan's ratio did not budge from the 1988 figure of 0.32 percent, ranking it 12th among DAC members. The United States gave the smallest share of GNP, 0.15 percent in 1989 compared to 0.21 percent the year before.

Tokyo has taken significant steps to strengthen its foreign aid program in line with its efforts to assume more international responsibility as befitting its economic power. In the fourth medium-term foreign aid program announced in June 1988 Tokyo outlined plans to improve both the quality and the quantity of its assistance. One goal is to move Japan's ODA/GNP ratio closer to the DAC average by the end of 1992 by doubling the aggregrate volume of foreign aid disbursed between 1988 and 1992. (Of course, Japan's efforts to meet this goal may be facilitated if the DAC average continues to drop.) Japan plans to spend $50 billion on foreign aid over this five-year period. The OECD predicted that, given these goals, continued increases in Japanese aid disbursements can be expected.

Although the Ministry of Foreign Affairs greeted the June 25 release of the latest DAC figures by cautioning that changes in exchange rates may make it difficult for Japan to fulfill its five-year aid plan, officials also expressed willingness to further increase foreign aid. The general account budget for the year starting April 1, 1990 contained another in a series of substantial annual increases for foreign economic assistance. The FY 1990 budget for foreign aid was raised 7.8 percent, the largest percentage increase of any discretionary budget category (see JEI Report No. 26A, July 6, 1990).

Although timing considerations certainly exaggerated the drop in DAC members' 1989 net disbursement levels, many foreign aid programs have faced serious challenges brought on by budget constraints and the demands of a dramatically different global political environment. The gradual drop in the U.S. ODA/GNP ratio over the past five years reflects Washington's own struggle to formulate a foreign aid budget under such pressures. The $15.6 billion foreign assistance appropriations bill passed by the House June 27 contains an increase of $112 million over the fiscal 1990 appropriation as well as some shifting of resources from security-related programs to economic development assistance. Yet political and financial constraints have preempted major changes in U.S. foreign assistance priorities and funding levels, and many American policymakers are calling for a major overhaul of the program. As Japan faces the demands of its new role as the world's leading foreign aid donor, the United States is likely to continue to face its own foreign aid challenges.

Margo Grimm

Trade White Paper Stresses Role Of Consumer

The Ministry of International Trade and Industry's annual trade white paper typically is a mix of something old, something new and something borrowed. The latest report, released June 22, is no exception. Something old was MITI's concern over the rising threat of protectionism, particularly in the United States. MITI stressed the important role that free trade plays as an international public good -- which implies that each participant can benefit without harm to other parties. In this vein the ministry emphasized the role Tokyo has in maintaining the present free trading system and, concurrently, the importance of the successful conclusion of the Uruguay Round of multilateral trade negotiations. With respect to Japan's trade surplus with the United States the ministry noted that the imbalance is not exclusively the result of Japanese barriers, and it suggested a number of policies that Washington should take to reduce the imbalance. These measures -- headed by reduction of the federal budget deficit -- largely repeat Tokyo's list of policy prescriptions for the United States laid out in the recently concluded Structural Impediments Initiative talks (see article in this issue).

This year's new concerns center on East-West relations. MITI acknowledged the severe economic problems confronting the Soviet Union and Eastern Europe and called for increased Western help for that region. However, it also called for internal reforms that would help improve the trade atmosphere for Western companies faced with such problems as the lack of currency convertibility, well-defined accounting procedures, antitrust laws and other components of a market-oriented economic system.

Something borrowed concerned its stress on improving the lot of the Japanese consumer, a cause championed by Washington in the SII talks. MITI emphasized the importance of eliminating price discrepancies between Japan and the rest of the world and reforming the distribution system to make the benefits of open markets more available to consumers. MITI's analysis found that in most respects Japanese living standards today are lower than those of the United States or West Germany 20 years ago.

MITI also noted other changes in the pattern of international trade. It argued that products with standardized measures of quality are being replaced by goods in which hard-to-measure attributes, such as design, are more important. American critics have noted that Japan imports far fewer such differentiated products, which generally account for much of what is called intra-industry trade, than do most other industrialized countries. Low intra-industry trade, other factors equal, implies low levels of manufactured imports. While acknowledging this difference between Japan and its competitors, MITI pointed out in apparent response that imports of manufactured goods accounted for over 50 percent of Japan's total imports in 1989 for the first time and that the share of imports in the consumer market had increased significantly between 1985 and 1989.

In short MITI found the Japanese trade structure generally heading in exactly the direction that would appear to meet American concerns. In areas where such movement is not as obvious, MITI called for new policies to induce such a redirection. American critics are likely to buy at least some of the arguments concerning the direction of change, but they may dispute MITI's contention that movement is rapid. While the ministry generally paints a picture

of the Japanese economy converging with the trade patterns of other industrial nations, U.S. analysts are sure to point to the many dimensions of globalization in which the Japanese economy continues to lag these countries by a substantial margin. These same critics are likely to note that the yen's dramatic appreciation between 1985 and late 1988 and Japan's accelerated economic growth since 1987 have been at least partly responsible for the realignment in the direction that MITI described. For these reasons many American analysts suggest that the jury is still out as to whether similar realignments will continue in the face of the relative currency stability and the slower economic growth that could characterize the early 1990s.

Douglas Ostrom

Japanese Banks Hit Bumps

A year ago Japanese banks looked invincible: they were enjoying a fourth year of record profits; their issues of new equity were greeted with open arms at home and abroad; the value of their stock portfolios was skyrocketing; and their international presence was expanding rapidly. Although Japanese banks still dominate world rankings in terms of total assets and deposits, business results for FY 1989 were mixed, dissipating their aura of invulnerability. The data highlight several weaknesses that will challenge management in coming years.

Operating revenues boomed for all major Japanese banks in FY 1989, according to figures compiled by the Japan Economic Journal (see Table). For the 13 nationwide commercial banks combined operating revenues in FY 1989 were Y31,148.7 billion ($207.7 billion at Y150=$1.00), a 38.8 percent gain over the Y22,466.5 billion ($149.8 billion) recorded the year before. The three long-term credit banks' operating revenues grew 28.8 percent from Y4,649.9 billion ($31 billion) to Y5,988.5 billion ($39.9 billion), while those for the seven largest trust banks increased 33.2 percent to Y6,609.8 billion ($44.1 billion) from Y4,962.6 billion ($33.1 billion).

Conversely, net profits were down across-the-board. Total net profits for the 13 commercial banks fell from Y1,247.6 billion ($8.3 billion) to Y1,102.5 billion ($7.4 billion). The seven trust banks recorded an identical 11.6 percent decline in net profits, which dropped from Y323.7 billion ($2.2 billion) to Y286.3 billion ($1.9 billion). The long-term credit banks faired a bit better; their net profits fell 9.9 percent to Y182.2 billion ($1.2 billion).

A complex maze of factors led to the decline in net profits despite greater operating revenues. While profits from domestic bond dealings dropped sharply as the market withered in the face of higher interest rates, booming profits from foreign exchange trading more than made up (in most cases) for the losses. Overseas operations also contributed more in FY 1989 than the year before, sometimes significantly more. Saitama Bank, Ltd., for example, enjoyed a near tripling of profits from overseas business, from Y5.7 billion ($38 million) to Y16.2 billion ($108 million). Sumitomo Bank, Ltd. led the commercial banks in this area, earning Y165.2 billion ($1.1 billion) abroad; its FY 1988 overseas profits were Y116.3 billion ($775.3 million).

Business Results of Selected Major Japanese Banks

(in billions of yen)

	Operating Revenues	Net Profits	Total Assets	Latent Stock Profits	Market Rate Funds*	Nonperforming Loans	BIS Capital Ratio
Sumitomo Bank, Ltd.							
FY 1989	Y4,151.1	Y174.5	Y62,773.4	Y2,887.7	63.0%	Y300.9	8.44%
FY 1988	2,934.6	198.3	52,962.1	3,466.6	52.0	379.5	8.29
Dai-Ichi Kangyo Bank, Ltd.							
FY 1989	4,083.4	155.5	66,590.8	3,537.1	58.0	261.8	8.30
FY 1988	2,987.0	179.7	54,280.6	4,339.0	47.0	338.8	8.22
Mitsubishi Bank, Ltd.							
FY 1989	3,663.7	149.8	60,673.2	3,463.1	67.0	260.3	8.40
FY 1988	2,618.9	167.3	49,619.7	4,049.9	51.0	338.8	8.36
Mitsui Bank, Ltd.							
FY 1989	2,040.5	64.9	34,634.3	2,353.7	65.0	160.8	6.90
FY 1988	1,543.2	79.4	29,040.1	2,840.9	54.0	193.5	7.32
Taiyo Kobe Bank, Ltd.							
FY 1989	1,636.5	50.8	28,712.3	2,042.2	59.0	105.0	7.20
FY 1988	1,204.0	53.5	24,134.1	2,223.3	42.0	164.3	7.50
Daiwa Bank, Ltd.							
FY 1989	1,195.1	33.0	18,770.8	1,629.0	62.0	64.6	8.40
FY 1988	831.0	39.0	15,382.3	1,616.3	41.0	92.9	8.60
Bank of Tokyo, Ltd.							
FY 1989	2,137.3	50.9	31,816.3	1,226.6	38.0	573.8	8.00
FY 1988	1,443.7	59.2	26,106.4	1,671.2	31.0	663.1	8.00
Industrial Bank of Japan, Ltd.							
FY 1989	2,747.4	83.3	43,602.7	4,120.0	21.0	191.1	7.80
FY 1988	2,158.8	93.5	37,449.4	5,148.0	19.0	261.5	9.00
Long-Term Credit Bank, Ltd.							
FY 1989	1,979.9	64.0	30,339.2	2,990.0	15.0	251.4	8.20
FY 1988	1,520.7	70.7	24,849.7	3,779.6	15.0	286.7	7.10
Sumitomo Trust & Banking Co., Ltd.							
FY 1989	1,527.0	62.2	18,858.8	1,638.2	33.0	99.6	11.10
FY 1988	1,086.1	73.5	16,593.9	1,991.6	26.9	116.5	12.30
Mitsubishi Trust & Banking Corp.							
FY 1989	1,476.0	68.3	21,500.6	1,766.6	35.0	101.9	11.10
FY 1988	1,107.8	77.5	17,204.0	2,223.1	27.9	131.1	12.80
Mitsui Trust & Banking Co., Ltd.							
FY 1989	1,167.8	54.0	16,051.7	1,920.0	34.6	123.7	10.24
FY 1988	906.2	60.5	12,774.2	2,375.5	24.8	142.4	9.23

*Percentage of total funds raised through instruments bearing market-determined rates.

Source: Japan Economic Journal

Although the profit picture was mixed, costs rose unambiguously. Four discount rate hikes by the Bank of Japan between May 31, 1989 and March 20, 1990 ratcheted up the average cost of raising funds. In addition, the Ministry of Finance's deregulation program forced banks to offer market rates of return to attract deposits. The 13 nationwide commercial banks relied on market-rate instruments to raise 58.5 percent of all funds in FY 1989, up sharply from the 45.5 percent level the previous year. Both trust banks (36.5 percent versus 28 percent) and long-term credit banks (20.7 percent from 19.2 percent) also were forced to shift in this way.

Most major Japanese banks made major charges against profits in FY 1989 to raise reserves for nonperforming loans to the Third World. The total amount of "doubtful credit" fell 20.9 percent for the covered commercial banks (from Y3,407.4 billion or $22.7 billion to Y2,695.5 billion or $18 billion), 19.6 percent for the long-term credit banks (to Y579.5 billion or $3.9 billion) and 15.8 percent for the trust banks (to Y548.7 billion or $3.7 billion). Write-offs associated with the Mexican debt deal (see JEI Report No. 6B, February 9, 1990), for example, cost the national commercial banks an estimated Y590 billion ($3.9 billion) and long-term credit banks an additional Y89 billion ($593.3 million). Japanese banks are expected to raise their loan loss reserves for Third World debt from the current 25 percent range to 30 or 35 percent this year and to the 45 percent level of American and European banks over the next few years. Each additional 5 percentage points of reserves takes an estimated Y150 billion ($1 billion) out of the profits of commercial and long-term credit banks.

The assets of all major banks were up strongly in FY 1989, reflecting solid economic activity at home and abroad. While the assets of the 13 big commercial banks continued to dwarf those of the other two groups -- rising 20.7 percent to Y508.3 trillion ($3.4 trillion) -- the total assets of trust banks showed a greater percentage gain, 23.7 percent to Y70.9 trillion ($472.7 billion). Long-term credit banks had a combined asset gain of 17.6 percent, bringing their total to just over Y92.5 trillion ($616.7 billion).

One factor powering asset growth in previous years was the spiraling value of issues on the Tokyo Stock Exchange, which inflated the latent profits of banks' stock portfolios. (Latent profits equal the difference between book and current market values.) This inflation ended in FY 1989 as the TSE fell back during the last quarter of the fiscal year. Latent stock profits for the listed commercial banks were off a combined 13.8 percent, those for trust banks were down 16.8 percent and long-term credit banks showed a 20.6 percent decline.

Weaker net earnings, reduced latent profits and strong asset growth spell trouble for Japanese banks' efforts to raise their equity/asset ratios as required by the Bank for International Settlements (see JEI Report No. 25B, July 1, 1988). Although the 13 nationwide commercial banks were able to raise their average capital adequacy ratio in FY 1989 to 8.12 percent from 7.97 percent, five in the group posted declines (Fuji Bank, Ltd., Mitsui Bank, Ltd., Taiyo Kobe Bank, Ltd., Daiwa Bank Ltd. and Saitama Bank). Trust banks also managed to raise their average ratio -- from 10.4 percent to 11.03 percent -- even though three of the seven showed declines. By a statistical coincidence the average ratio for trust banks did not change between FY 1988 and FY 1989 despite a major drop by Industrial Bank of Japan, Ltd. Despite the mixed picture,

most banks have achieved the required 8 percent overall ratio. It is not clear, however, how the banks stand in regard to the 4 percent requirement for "core" capital.

While the data show that Japanese banks remain sound and strong international competitors, weak spots also are revealed. It is clear that managers have chosen not to restrain asset growth as they strive to meet the BIS capital requirements. But poor net profits plus the potential for further declines in the value of bank stock portfolios and the likelihood of significant additions to loan loss reserves cast strong doubts on the banks' plans to boost profits and net equity. Japanese banks have two more years to solidify their balance sheets in preparation for the 1992 deadline set for implementation of the BIS guidelines.

Jon Choy

Government Projects Long-Term Labor Shortage

Although Japan's second-longest economic expansion has profited many corporations, a painful side effect, particularly for small and medium-sized companies, has been a chronic labor shortage. The unemployment rate ebbed from 2.4 percent in FY 1988 to 2.2 percent in the year ending March 31, 1990; in the January-April period of this year unemployment averaged just 2.1 percent. The effective job opening ratio, another indicator of supply and demand in the labor market, has been at or above 1.3 openings for every applicant since May 1989; in May this year it reached 1.41.

These indicators support the argument that Japan's labor market needs new sources of workers from the underutilized populations represented by women, senior citizen and foreigners. The Ministry of Labor suggested in May that no relief from a tight labor market can be expected either in the near term or into the next century provided that current forecasts of continued solid economic expansion (see JEI Report No. 25B, June 29, 1990) prove true and that any long-term slowdown is only gradual.

MOL bases its long-term projection of a labor shortage on a decline in the expansion of real gross national product from a projected 4 percent in FY 1990 to an estimated 3.2 percent in FY 2000 and a forecast 2.6 percent in FY 2010. As reported in the June 19 edition of Nihon Keizai Shimbun, MOL determined the future demand for labor by multiplying the expected rate of economic growth by the elasticity of demand for labor, which was placed at 0.25, the average 1980-90 figure. The results were an estimated 66.3 million workers required in 1995, 69 million in 2000, 71.3 million in 2005 and 73.7 million in 2010.

But the supply of labor was projected to grow at an average annual rate of only 0.7 percent until 1995 and then shrink after 2000, a reflection mainly of demographic changes in which the population of men aged 15 to 64 is expected to decline. MOL further calculated that cutting the number of hours worked, a current government goal (see JEI Report No. 23B, June 15, 1990), also would decrease the labor supply; that effect, the ministry said, could be offset by a continuing rise in productivity obtained, for example, by increasing wages. Based on these estimates, MOL forecast that the labor supply will be 65.8